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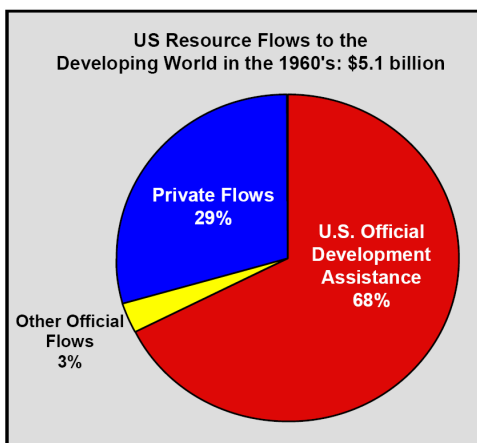
Private Capital Fuels International Development

By the Global Development Alliance

For 40 years, the United States government has advocated and enabled the creation of policies to improve socioeconomic conditions in developing countries. The United States Agency for International Development (USAID) recognizes that increased engagement of the private sector, and the sheer volume of private-sector flows, represent enormous opportunities to meet the U.S. government's goals of transformational diplomacy: building democratic, well-governed states that conduct themselves responsibly in the international system. The Global Development Alliance (GDA), a USAID Business Model for public-private partnerships, has generated promising early results through the application of more than \$5 billion in combined public-private funds. Moreover, the commitment of USAID professionals, missions, and operating units demonstrates that USAID sees alliance-building as a valuable approach to accomplishing its goals.

In 2003, the GDA began reporting data on U.S. resource flows to developing countries, and newly updated information shows how the majority of development interventions have been carried out through multilateral or bilateral governmental action, with some involvement by private religious and lay charities and through the work of dedicated foundations. In the late 1960s, there was a total of \$5.1 billion of U.S. funds going to the developing world, excluding trade in goods and services. Fully 68 percent, or more than \$3.4 billion, was official development assistance (ODA) mostly programmed through USAID, according to the Bureau of Economic Analysis (BEA).

Private capital, however, increased from about 30 percent in the 1960s to 83.2 percent, or more than \$136 billion, in 2005. In contrast, public funding of development, once the driving force for international giving, has decreased to less than 17 percent of total flows in 2005. Between 2003 and 2005 alone, GDA estimates that public-private flows have increased by \$51.6 billion, bringing the total to \$164.2 billion.



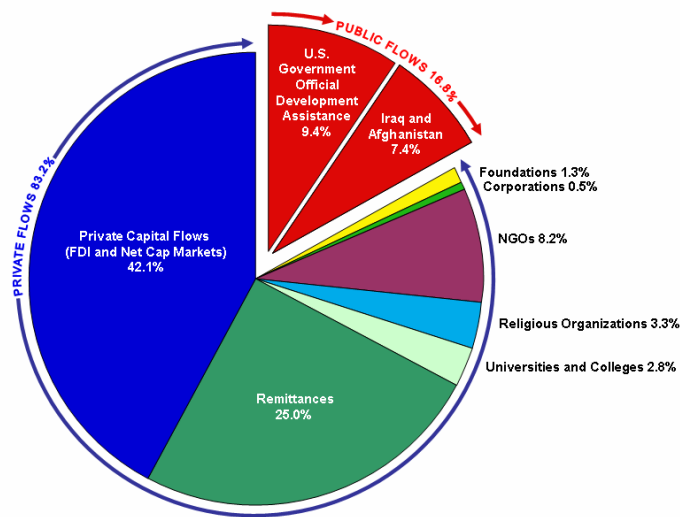
Private development flows made up only 29 percent, or just over \$1.4 billion, in the 1960s. By 2005, the amount of ODA grew eight fold, to \$27.6 billion. Even discounting allocations for development assistance to Afghanistan and Iraq, total foreign assistance outlays between 2001 and 2005 alone grew by an annual average of nearly 8

percent, in contrast to an annual average of 1.5 percent over the previous eight years.

The degree to which today's world is increasingly integrated has transformed the way that individual citizens, private corporations, and public agencies think about and engage with other countries. While not all of the private funds described above go towards specifically developmental programs, they are symptomatic of the way that private sector actors in particular are reinventing themselves in the international arena. Increases in philanthropic giving, meanwhile, reflect the fact that individuals, companies, and foundations are responding to the needs of the developing world.

The pie chart shown below illustrates the diversity of sources in private flows to the developing world. The rationale behind GDA is in the effective leveraging of public aid with partners.

**US TOTAL FLOWS TO THE
DEVELOPING WORLD IN 2005: \$164 BILLION**



USAID, June 2007

As the data from these pie charts illustrate, private flows are playing an increasingly dominant role in development funding. USAID has recognized this revolutionary trend and is committed to building public-private alliances for increased development impact.

Important U.S. businesses and organizations have created significant new relationships in developing countries that continue to deepen and strengthen. As such, the U.S. government is presented with new opportunities for development. We can now engage private sector actors, both non-U.S.-based and U.S.-based,

in a dialogue aimed at establishing clear common objectives that are beneficial to all: our public policy goals aimed at fostering development and legitimate business and humanitarian objectives. This way, by combining forces and resources we can have a true “force multiplier” effect, as then Secretary of State Colin Powell put it when he presented to the Congress the Global Development Alliance, in 2001, as the most significant innovation in our way to conceive and deliver foreign assistance.

One example of a successful GDA is an alliance between Starbucks and Rwanda coffee producers. The partnership has raised quality standards and improved incomes for 40,000 farmers in Rwanda. USAID’s \$10 million commitment over five years provided an attractive new product for the world’s largest coffee buyer, resulting in Starbucks selling Rwandan Blue Bourbon coffee in 5,000 of its retail outlets and boosting the brand values of Rwandan coffee.

By forging alliances with the private sector in which the different participants contribute money, human capital, in-kind contributions, or expertise, USAID leverages considerable, but always limited, public funds to attract a much wider and deeper pool of resources. Through the GDA, USAID combines resources and experts to transform the lives of poor people living around the world through a more flexible model. GDA fosters an agenda that in the end makes a lot more sense if it is “owned” not just by the U.S. government but by a wide spectrum of actors engaged in developing countries. The overall public policy objective is clear: to foster the growth and strengthening of societies that are free and well-governed while promoting economic development.